VT Tyndall Unconstrained UK Income Fund

Monthly Commentary | May 2024

TYNDALL

Review

After the widespread weakness seen across equity markets during April, May witnessed a welcome return to positive territory for many. Pleasingly, this included the UK market which continued to build on the strength seen in recent months, with the iShares UK Equity Index tracker gaining +1.55% for May. In a change from recent trends, shares in the mid-cap and small-cap areas of the market significantly outperformed their large-cap counterparts during the month.

Economic data in the US, the area that has shown the most resilient growth in recent times, has started to soften somewhat in recent weeks. Whilst we doubt markets want to see that weakness accelerate significantly, it has perhaps helped calm the nerves of those most concerned about the potential for inflation to accelerate aggressively again. A recent bout of weakness in the oil price will likely be helpful in that regard also.

Meanwhile, the latest twist in what is sure to be a dramatic US presidential election campaign, has seen a New York jury find Donald Trump guilty on all thirty-four counts of falsifying business records. Consequently, he becomes, at least for now, the first president in US history to become a convicted felon. Whilst it is tempting to assume this spells disaster for Trump and his election prospects this is America after all, and anything is possible!

In contrast to the US economic data, activity is staging a modest acceleration in both the UK and in Europe. Whilst it is a tentative recovery thus far, it is nonetheless extremely welcome and will hopefully persist over the balance of the year, particularly if easing inflation does allow the ECB and the Bank of England to lower interest rates over the coming months.

Specifically in the UK, the Bank surprised no one at this stage by leaving interest rates unchanged at 5.25% following their latest meeting in early May. Instead, the biggest surprise of the month came from the Prime Minister who seemingly surprised everyone, even his own colleagues, by calling a snap general election for July 4th. Whilst elections, and other votes, have proved somewhat unpredictable in recent times, it would certainly, at this stage at least, be an enormous shock if we do not end up having a change of government in just over a month. What the implications of such a change will be for the UK economy and stock market remains to be seen.

Fund performance / Activity

As noted above, in a change from recent experience, mid and small-cap shares significantly outperformed large-caps during May. Given our fund has substantial exposure to mid-caps in particular, we felt our performance should perhaps have been a bit stronger for the month. As it was, our fund gained +2.03% (share class A GBP Net Accumulation), outperforming the iShares UK Equity Index tracker gain of +1.55% but underperforming the peer group average gain of +3.14%.

There were several individual positive contributors to performance in May, including holdings such as OSB Group, Bodycote, Intermediate Capital, Dunelm, Vistry and TP Icap. There were an equal variety of detractors from performance including EasyJet, Entain, RS Group, Wickes and DFS

Furniture. Not owning select index heavyweights, such as HSBC and GlaxoSmithKline, also proved detrimental as their share prices performed well.

We were more active again in the portfolio in May, adding two completely new holdings, industrial business Morgan Advanced Materials and financial services business Just Group. We also added to positions in WH Smiths, Mony Group and Inchcape. We made no complete disposals in May although we took profits in several positions, including Savills, Telecom Plus, Vistry, Intermediate Capital and Howden Joinery.

Market Outlook

Whilst it is hard to argue that the outlook for inflation and the path of monetary policy has become materially clearer than last month, there does at least appear to be a degree of calm returning, perhaps aided by falling oil prices, which seems to be capping government bond yields and allowing the upward journey of equity markets to resume.

To what extent this relative calm will persist as we enter the summer months remains to be seen – particularly as we inevitably start to focus on electoral outcomes and their potential implications both in the UK, the US, and more broadly.

Absent any dramatic new developments over the next few months, equity markets are likely to take their lead from the traditional market drivers of economic growth, inflation and interest rate expectations, and corporate profitability progression. On all these fronts we remain relatively sanguine and hence constructive on the market outlook, whilst always acknowledging the potential for short-term setbacks at any time.

As we frequently finish this outlook section, when we analyse the collection of stocks in our portfolio today, we remain extremely enthusiastic for the upside potential on offer over the medium term, and we remain happy to purchase more shares, at attractive prices, in any further bouts of market weakness.

Simon Murphy, Fund Manager, VT Tyndall Unconstrained UK Income Fund,

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Data source (unless otherwise stated): Bloomberg, FE Analytics

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